

GRIFFISS UTILITY  
SERVICES CORPORATION  
AND SUBSIDIARY

For the Year Ended  
December 31, 2014

CONSOLIDATED  
FINANCIAL STATEMENTS  
AND CONSOLIDATING  
SCHEDULES

# GRIFFISS UTILITY SERVICES CORPORATION AND SUBSIDIARY

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## Independent Auditor's Report

To the Board of Directors of  
Griffiss Utility Services Corporation and Subsidiary

### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Griffiss Utility Services Corporation (a nonprofit organization) and Subsidiary, which comprise the consolidated statements of financial position as of December 31, 2014 and 2013, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Griffiss Utility Services Corporation and Subsidiary as of December 31, 2014 and 2013, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matter**

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating schedules, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*D'Arcangelo + Co., LLP*

March 26, 2015

Utica, New York

**GRIFFISS UTILITY SERVICES CORPORATION AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

**December 31, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<b>Assets</b>		
<b>Current Assets</b>		
Cash	\$ 13,536,065	\$ 12,030,887
Accounts Receivable, Net	1,633,993	1,172,768
Prepaid Expenses	1,072,494	638,170
Inventory	<u>189,887</u>	<u>193,297</u>
Total Current Assets	<u>16,432,439</u>	<u>14,035,122</u>
<b>Property</b>		
Land, Buildings, and Improvements	36,775,522	36,534,646
Vehicles and Equipment	8,611,217	8,434,803
Fuel Tanks	1,390,964	1,390,964
Distribution Lines	20,501,444	20,403,808
Office Furnishings	40,925	40,925
Construction in Progress	<u>99,799</u>	<u>119,251</u>
Total Property	67,419,871	66,924,397
Accumulated Depreciation	<u>21,776,544</u>	<u>19,435,930</u>
Net Property	<u>45,643,327</u>	<u>47,488,467</u>
<b>Other Assets</b>		
Cash Surrender Value	254,132	208,739
Deferred Tax Asset	0	229,521
Loan Closing Costs	<u>51,982</u>	<u>53,775</u>
Total Other Assets	<u>306,114</u>	<u>492,035</u>
<b>Total Assets</b>	<u>\$ 62,381,880</u>	<u>\$ 62,015,624</u>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts Payable and Accrued Expenses	\$ 934,083	\$ 1,939,968
Current Portion of Long-Term Debt	286,285	0
Deposits	<u>112,239</u>	<u>111,543</u>
Total Current Liabilities	<u>1,332,607</u>	<u>2,051,511</u>
<b>Long-Term Liabilities</b>		
Deferred Compensation	82,987	60,090
Long-Term Debt	<u>11,488,487</u>	<u>11,214,540</u>
Total Long-Term Liabilities	<u>11,571,474</u>	<u>11,274,630</u>
<b>Deferred Tax Liability</b>	<u>145,326</u>	<u>0</u>
<b>Net Assets</b>		
Accumulated Deficit of Subsidiary	<u>(549,568)</u>	<u>(829,261)</u>
Unrestricted		
Board Designated Reserves	977,567	1,000,000
Undesignated	<u>48,904,474</u>	<u>48,518,744</u>
Total Unrestricted	<u>49,882,041</u>	<u>49,518,744</u>
Total Net Assets	<u>49,332,473</u>	<u>48,689,483</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 62,381,880</u>	<u>\$ 62,015,624</u>

The Accompanying Notes are an Integral Part of These Consolidated Financial Statements.

GRIFFISS UTILITY SERVICES CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF ACTIVITIES

For the Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<b>Revenues and Gains</b>		
Steam Revenue Charges	\$ 2,967,428	\$ 3,000,688
Electricity Distribution Charges	8,505,034	7,413,168
Grant Revenue	1,816,609	0
Interest Income	57,531	43,176
Other Income	96,666	242,927
Total Revenues and Gains	<u>13,443,268</u>	<u>10,699,959</u>
<b>Expenses</b>		
Program Services		
Steam Heating Services	4,423,772	3,844,879
Electricity Distribution Services	6,533,761	5,997,937
Supporting Services		
Management and General	1,842,745	1,228,624
Total Expenses	<u>12,800,278</u>	<u>11,071,440</u>
<b>Increase (Decrease) in Net Assets</b>	642,990	(371,481)
<b>Net Assets, Beginning of Year</b>	<u>48,689,483</u>	<u>49,060,964</u>
<b>Net Assets, End of Year</b>	<u>\$ 49,332,473</u>	<u>\$ 48,689,483</u>

The Accompanying Notes are an Integral Part of These Consolidated Financial Statements.

**GRIFFISS UTILITY SERVICES CORPORATION AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**For the Years Ended December 31, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<b>Cash Flows From (Used by) Operating Activities</b>		
Increase (Decrease) in Net Assets	\$ 642,990	\$ (371,481)
Adjustment for Noncash Transactions		
Depreciation and Amortization	2,342,407	1,855,070
Allowance for Doubtful Accounts	18,543	0
Deferred Taxes	374,847	(167,729)
Inventory Adjustment	3,410	(3,384)
Deferred Compensation	22,897	21,400
(Increase) Decrease in Assets		
Accounts Receivable	(479,768)	(236,733)
Prepaid Expenses	(434,324)	55,011
Cash Surrender Value	(45,393)	(41,285)
Increase (Decrease) in Liabilities		
Accounts Payable and Accrued Expenses	(1,005,885)	(550,382)
Deposits	696	(2,621)
Net Cash Flows From Operating Activities	<u>1,440,420</u>	<u>557,866</u>
<b>Cash Flows (Used by) Investing Activities</b>		
Capital Expenditures	<u>(495,474)</u>	<u>(6,272,334)</u>
Net Cash Flows (Used by) Investing Activities	<u>(495,474)</u>	<u>(6,272,334)</u>
<b>Cash Flows From (Used by) Financing Activities</b>		
Proceeds from Long-Term Debt	748,157	5,240,953
Payment of Long-Term Debt	<u>(187,925)</u>	0
Net Cash Flows From Financing Activities	<u>560,232</u>	<u>5,240,953</u>
<b>Net Increase (Decrease) in Cash</b>	1,505,178	(473,515)
<b>Cash, Beginning of Year</b>	<u>12,030,887</u>	<u>12,504,402</u>
<b>Cash, End of Year</b>	<u>\$ 13,536,065</u>	<u>\$ 12,030,887</u>

**Supplemental Cash Flow Disclosures**

**Cash Paid During the Year**

Interest	<u>\$ 628,819</u>	<u>\$ 485,926</u>
Income Taxes	<u>\$ 1,500</u>	<u>\$ 1,868</u>

The Accompanying Notes are an Integral Part of These Consolidated Financial Statements.

# GRIFFISS UTILITY SERVICES CORPORATION AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **Operations**

Griffiss Utility Services Corporation (GUSC) is a nonprofit organization whose primary purpose is to support Griffiss Local Development Corporation's (GLDC) mission efforts of stimulating economic growth at the Griffiss Business and Technology Park located in Rome, New York. To accomplish this objective, GUSC operates and maintains the utility systems. The activities of GUSC are funded primarily through revenue from the distribution of steam heat and electricity.

#### **Principles of Consolidation**

The consolidated financial statements include the accounts of GUSC and its wholly-owned subsidiary, GUSC Energy Inc. All intercompany transactions have been eliminated.

GUSC Energy Inc. was formed during 2011, with GUSC as the sole member, for the primary purpose of constructing and operating an open-loop biomass fueled combined heat and power facility in the Griffiss Business and Technology Park. The common stock has no par value, and there are 200 shares authorized of which 1 share is issued and outstanding to GUSC.

#### **Basis of Presentation**

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. These consolidated financial statements, presented on the accrual basis of accounting, have been prepared to focus on GUSC as a whole and present balances and transactions according to the existence or absence of donor-imposed restrictions. This has been accomplished by reporting information regarding financial position and activities according to three classes: permanently restricted, temporarily restricted, or unrestricted. However, GUSC only maintained unrestricted net assets at December 31, 2014 and 2013.

#### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### **Concentration of Revenue**

GUSC's primary source of revenue is from the supply of steam heat and distribution of electricity to businesses in the Griffiss Business and Technology Park. GUSC is also sensitive to the market conditions of fuel prices. The effect, if any, on the consolidated financial statements is not considered material as any price increases are passed on to the customers.

#### **Accounts Receivable**

GUSC carries its accounts receivable at cost, less an allowance for doubtful accounts. A provision has been established for receivables which may ultimately prove to be uncollectible. The basis for the provision is an analysis of current accounts. The allowance for doubtful accounts was \$155,890 and \$137,347 at years ended December 31, 2014 and 2013, respectively.

# GRIFFISS UTILITY SERVICES CORPORATION AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Property

All expenditures for property and equipment exceeding \$2,500 are capitalized and depreciated over the useful life of the property and recorded at historical cost if purchased or fair market if donated. Depreciation is provided using the straight-line method as follows:

	<u>Estimated Useful Lives</u>
Buildings and Improvements	40 Years
Fuel Tanks	15 Years
Distribution Lines	20 Years
Vehicles and Equipment	2-10 Years
Office Furnishings	5-10 Years

Depreciation expense for the years ended December 31, 2014 and 2013, was \$2,340,613 and \$1,855,070, respectively.

#### Inventory

GUSC's inventory consists of oil. Although natural gas and/or wood chips are the main sources of fuel for generating steam, oil is maintained and used as a backup in case of an interruption of services and as a hedge against fluctuating prices. Fuel oil inventory is stated at average cost. The oil inventory was \$189,887 and \$193,297 at December 31, 2014 and 2013, respectively.

#### Loan Closing Costs

Loan closing costs were incurred in the amount of \$53,775 as part of GUSC Energy Inc.'s activity. The closing costs are being amortized over the life of the related term loan (20 years), which has begun repayments in 2014. Amortization expense for the year ended December 31, 2014 is \$1,793. Amortization expense for each of the next five years is expected to be \$1,793.

#### Expense Allocation

The costs of operations of the steam plant and other activities have been summarized on a functional basis in the Statement of Activities. Certain costs have been allocated among the following program and supporting services as follows:

Steam Heating Services – Includes all direct expenses necessary to generate and distribute steam and maintain the existing steam plant facilities.

Electricity Distribution Services – Includes all direct expenses necessary to distribute electricity and maintain the existing facilities.

Management and General – Includes all administrative expenses necessary to operate GUSC which are not specifically identifiable to direct program services.

#### Income Taxes

GUSC qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and utilizes December 31 as its year end. The Corporation has also been determined to be other than a private foundation, as it is an organization described in Section 509(a)(3) of the Internal Revenue Code. The Corporation's Federal information returns for the years prior to 2011 are no longer subject to examination by the respective taxing authorities.

# GRIFFISS UTILITY SERVICES CORPORATION AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

GUSC Energy Inc. has an effective income tax rate that is different from the expected statutory rate due to the use of accelerated depreciation methods and nondeductible expenses for income tax purposes. Deferred taxes are recognized for differences between the basis of assets and liabilities for financial statement and income tax purposes. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be deductible or taxable when the assets and liabilities are recovered or settled. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

### NOTE 2 CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject GUSC to concentrations of credit risk consist principally of cash in financial institutions. From time to time throughout the year, cash balances can exceed the third party collateral and Federal Deposit Insurance Corporation (FDIC) coverage. Management believes that it is not exposed to any significant risk with respect to these accounts.

Financial instruments which also potentially subject GUSC to concentrations of credit risk include net accounts receivable of \$1,633,993 and \$1,172,768 at December 31, 2014 and 2013, respectively. These receivables are generated from revenue from steam distribution and electricity to occupants of the Griffiss Business and Technology Park to which GUSC has extended credit. Management routinely assesses these accounts and generally requires no collateral from them.

### NOTE 3 COMPENSATED ABSENCES

GUSC has not accrued any compensated absences at December 31, 2014 and 2013, because an amount cannot be reasonably estimated. However, management believes such amounts to be immaterial.

### NOTE 4 LONG-TERM DEBT

At December 31, 2014 and 2013, long-term debt consisted of the following:

	<u>2014</u>	<u>2013</u>
<u>GUSC Energy Inc.</u>		
Term loan payable to Oneida Savings Bank to pay for costs related to completion of the open-loop biomass power facility. The maximum amount authorized is \$12,000,000. The loan is secured by a first security interest in all equipment owned, a first mortgage on the steam plant property located at 655 Ellsworth Road in Rome, NY, an assignment of rents and leases on the property, and future assignment of the proceeds from a Federal grant. The loan is further guaranteed by GUSC. The term of the loan is 20 years with an amortization of 25 years and interest fixed at 5.25% for the first 10 years, then adjusting every 5 years thereafter to the Five Year US Treasury Rate plus 2.50%. The Corporation is currently making monthly payments of \$75,508 plus interest.	11,774,772	11,214,540
Less: Current Portion of Long-Term Debt	<u>286,285</u>	<u>0</u>
Total Long-Term Debt	<u>\$ 11,488,487</u>	<u>\$ 11,214,540</u>

**GRIFFISS UTILITY SERVICES CORPORATION AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 4 LONG-TERM DEBT (Continued)**

The following are maturities of the above debt for the next five years and thereafter:

<u>Year</u>	<u>Amount</u>
2015	\$ 286,285
2016	300,164
2017	318,274
2018	335,634
2019	353,942
Thereafter	<u>10,180,473</u>
Total	<u>\$ 11,774,772</u>

Intercompany

GUSC has issued several notes receivable from GUSC Energy Inc. to assist with costs to construct an open-loop biomass power facility. The principal balance on the notes is \$6,000,000 at both December 31, 2014 and 2013. The notes are unsecured and are required to be paid in interest-only monthly installments through December 31, 2020 at which time the principal portion of the notes are required to be paid in full. The interest rate is currently fixed at 4.50%.

**NOTE 5 SUBSIDIARY ACCUMULATED DEFICIT**

The changes in the accumulated deficit of GUSC Energy Inc. are as follows:

	<u>2014</u>	<u>2013</u>
Balance, Beginning of Year	\$ (829,261)	\$ (224,445)
Net Income (Loss) of GUSC Energy Inc.	<u>279,693</u>	<u>(604,816)</u>
Balance, End of Year	<u>\$ (549,568)</u>	<u>\$ (829,261)</u>

**NOTE 6 LEASE**

GUSC maintains an operating lease for a vehicle. Monthly payments on the lease are \$522. In September 2014, the Organization entered into a new lease with the same monthly payments and a \$3,680 down payment. Lease expense was \$9,944 and \$6,266 for each of the years ended December 31, 2014 and 2013, respectively. The estimated future minimum lease payment is \$6,266 for 2015.

**NOTE 7 INCOME TAXES**

Federal and State provision for (benefit from) taxes for GUSC Energy, Inc. for the years ended December 31, 2014 and 2013 consisted of the following:

	<u>2014</u>	<u>2013</u>
Current Tax Expense		
New York State	\$ <u>1,500</u>	\$ <u>1,500</u>
Total Current Tax Expense	<u>1,500</u>	<u>1,500</u>
Deferred Tax Expense (Benefit)		
Federal	313,685	(140,489)
New York State	<u>61,162</u>	<u>(27,240)</u>
Total Deferred Tax Expense (Benefit)	<u>374,847</u>	<u>(167,729)</u>
Total Provision for (Benefit from) Taxes	<u>\$ 376,347</u>	<u>\$ (166,229)</u>

**GRIFFISS UTILITY SERVICES CORPORATION AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 7 INCOME TAXES (Continued)**

The deferred tax asset (liability) as of December 31, 2014 and 2013 is comprised of the following:

	<u>2014</u>	<u>2013</u>
Deferred Tax Asset		
Net Operating Loss Carryforward	\$ 898,152	\$ 459,521
Valuation Allowance	<u>(450,000)</u>	<u>(230,000)</u>
Deferred Tax Asset	<u>448,152</u>	<u>229,521</u>
Deferred Tax (Liability)		
Depreciation – Excess of Tax over Book	<u>(593,478)</u>	<u>0</u>
Deferred Tax Asset (Liability), Net	\$ <u>(145,326)</u>	\$ <u>229,521</u>

The valuation allowance has experienced an increase of \$220,000 and \$170,000 for the years ended December 31, 2014 and 2013, respectively.

As of December 31, 2014, GUSC Energy Inc. had net operating loss carryovers that may offset future taxable income. If not utilized, these carryovers will expire as follows:

	Federal Net Operating Loss	New York State Net Operating Loss
2031	\$ 61,710	\$ 61,710
2032	223,285	221,785
2033	772,545	771,045
2034	<u>1,010,117</u>	<u>1,008,617</u>
	\$ <u>2,067,657</u>	\$ <u>2,063,157</u>

GUSC Energy Inc.'s Federal and State income tax returns for all applicable tax years remain subject to examination by the respective taxing authority.

**NOTE 8 PENSION PLAN**

GUSC contributes to a 401(k) profit-sharing plan for all employees. Employees are eligible for membership in the plan after six months of service and attaining age 21. Contributions paid to the plan are based upon 5% of participants' annual compensation and a 100% match of elective deferrals up to 5% of the participant's annual compensation. The amount of contributions paid to the plan on behalf of the employees of GUSC for the years ended December 31, 2014 and 2013 were \$132,940 and \$118,042, respectively. At December 31, 2014 and 2013, GUSC has accrued liabilities of \$10,161 and \$8,441 respectively, to the plan.

**NOTE 9 DEFERRED COMPENSATION ARRANGEMENT**

GUSC entered into an unfunded, nonqualified deferred compensation plan with a key employee. The agreement provides for postretirement benefits, contingent on certain conditions, payable upon the employee's retirement on his normal retirement date. GUSC is accruing the present value of the estimated future benefit payments over the period from the date of the agreement to the retirement date. GUSC recognized an expense of \$22,897 and \$21,400 for the years ended December 31, 2014 and 2013, respectively, related to this agreement.

**GRIFFISS UTILITY SERVICES CORPORATION AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 10 COMMITMENTS**

GUSC is required to remit to Griffiss Local Development Corporation (GLDC) a percentage of future revenues generated from the electrical distribution system based upon usage. These payments are required to be made quarterly until December 31, 2046. During the years ended December 31, 2014 and 2013, GUSC remitted \$127,008 and \$129,368 respectively, to GLDC for its share of revenue from the electrical distribution system.

**NOTE 11 BOARD DESIGNATED RESERVES**

At each of the years ended December 31, 2014 and 2013, the board has designated the following reservations of fund balance:

	<u>2014</u>	<u>2013</u>
Reserve for Capital Projects	\$ 250,000	\$ 250,000
Reserve for Storm Restoration	450,000	450,000
Reserve for Energy Savings Programs	<u>277,567</u>	<u>300,000</u>
Total Board Designated Reserves	<u>\$ 977,567</u>	<u>\$ 1,000,000</u>

**NOTE 12—UNCERTAINTIES, CONTINGENCIES, AND RISKS**

**Litigation**

GUSC and GUSC Energy Inc. are involved in litigation arising in the ordinary course of business. While the ultimate outcome of these matters is not presently determinable, it is the opinion of management that the resolution of outstanding claims in excess of insurance coverage will not have a material adverse effect on the financial position or results of operations of the corporations.

GUSC Energy Inc. has been named as a defendant in certain other actions related to construction of the biomass power facility. GUSC Energy Inc. has accrued a liability for \$265,525 related to one claim and intends to defend itself vigorously in each of the other claims. The amount of any additional related contingency, if any, cannot be determined at this time.

**Grants**

Amounts received from grantor agencies are subject to audit and adjustment by grantor agencies, principally the Federal and State governments. Disallowance, if any, could result in a claim for refund. No such claims have been made and none are anticipated.

**U.S. Department of the Treasury**

During 2014, the U.S. Department of the Treasury awarded GUSC Energy Inc. a section 1603 payment for specified energy property in lieu of tax credits in the amount of \$316,609 for construction of the biomass power facility. The award contains recapture provisions when certain conditions are not met. To retain the full payment, the property must continue to qualify as specified energy property and not be disposed of to a disqualified person, as described in the program guidance, for five years from the date the property is placed in service. The repayment provision is phased out 20% each year and expires in 2019.

**GRIFFISS UTILITY SERVICES CORPORATION AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 12—UNCERTAINTIES, CONTINGENCIES, AND RISKS (Continued)**

**Empire State Development Corporation**

During 2014, Empire State Development Corporation awarded GUSC Energy Inc. a capital project grant for \$1,500,000 for construction of the biomass power facility. The award contains recapture provisions when certain conditions are not met. Grant funds will be subject to a pro rata recapture if the property at the project location is sold within five years of disbursement of funds. The recapture amount is based on the time that has elapsed between when the grant funds were disbursed and when the transfer occurred, decreasing 20% each year until expiration at the end of the fifth calendar year after the disbursement is made, which will be December 31, 2019.

**NOTE 13 SUBSEQUENT EVENTS**

Management has evaluated subsequent events through March 26, 2015, the date on which the financial statements were available to be issued.

**GRIFFISS UTILITY SERVICES CORPORATION AND SUBSIDIARY**

**CONSOLIDATING SCHEDULE OF FINANCIAL POSITION**

December 31, 2014

	<u>GUSC</u>	<u>GUSC Energy Inc.</u>	<u>Combined Balance</u>	<u>Consolidation Elimination</u>	<u>Consolidated Balance</u>
<b>Assets</b>					
<b>Current Assets</b>					
Cash	\$ 12,123,370	\$ 1,412,695	\$ 13,536,065	\$ 0	\$ 13,536,065
Accounts Receivable, Net	1,633,993	0	1,633,993	0	1,633,993
Due From Parent Company	607,319	87,211	694,530	(694,530)	0
Prepaid Expenses	1,064,350	8,144	1,072,494	0	1,072,494
Inventory	189,887	0	189,887	0	189,887
Total Current Assets	<u>15,618,919</u>	<u>1,508,050</u>	<u>17,126,969</u>	<u>(694,530)</u>	<u>16,432,439</u>
<b>Property</b>					
Land, Buildings, and Improvements	18,590,475	18,185,047	36,775,522	0	36,775,522
Vehicles and Equipment	8,611,217	0	8,611,217	0	8,611,217
Fuel Tanks	1,390,964	0	1,390,964	0	1,390,964
Distribution Lines	20,501,444	0	20,501,444	0	20,501,444
Office Furnishings	40,925	0	40,925	0	40,925
Construction in Progress	99,799	0	99,799	0	99,799
Total Property	49,234,824	18,185,047	67,419,871	0	67,419,871
Accumulated Depreciation	21,321,918	454,626	21,776,544	0	21,776,544
Net Property	<u>27,912,906</u>	<u>17,730,421</u>	<u>45,643,327</u>	<u>0</u>	<u>45,643,327</u>
<b>Other Assets</b>					
Investment in Subsidiary	996,483	0	996,483	(996,483)	0
Cash Surrender Value	254,132	0	254,132	0	254,132
Note Receivable - Subsidiary	6,000,000	0	6,000,000	(6,000,000)	0
Loan Closing Costs, Net of Amortization	0	51,982	51,982	0	51,982
Total Other Assets	<u>7,250,615</u>	<u>51,982</u>	<u>7,302,597</u>	<u>(6,996,483)</u>	<u>306,114</u>
<b>Total Assets</b>	<b>\$ 50,782,440</b>	<b>\$ 19,290,453</b>	<b>\$ 70,072,893</b>	<b>\$ (7,691,013)</b>	<b>\$ 62,381,880</b>
<b>Liabilities and Net Assets</b>					
<b>Current Liabilities</b>					
Accounts Payable and Accrued Expenses	\$ 617,962	\$ 316,121	\$ 934,083	\$ 0	\$ 934,083
Due to Subsidiary	87,211	607,319	694,530	(694,530)	0
Current Portion of Long-Term Debt	0	286,285	286,285	0	286,285
Deposits	112,239	0	112,239	0	112,239
Total Current Liabilities	<u>817,412</u>	<u>1,209,725</u>	<u>2,027,137</u>	<u>(694,530)</u>	<u>1,332,607</u>
<b>Long-Term Liabilities</b>					
Deferred Compensation	82,987	0	82,987	0	82,987
Long-Term Debt	0	17,488,487	17,488,487	(6,000,000)	11,488,487
Total Long-Term Liabilities	<u>82,987</u>	<u>17,488,487</u>	<u>17,571,474</u>	<u>(6,000,000)</u>	<u>11,571,474</u>
<b>Deferred Tax Liability</b>	<u>0</u>	<u>145,326</u>	<u>145,326</u>	<u>0</u>	<u>145,326</u>
<b>Net Assets</b>					
Paid-in-Capital	0	996,483	996,483	(996,483)	0
Accumulated Deficit	0	(549,568)	(549,568)	0	(549,568)
<b>Unrestricted Net Assets</b>					
Board Designated Reserves	977,567	0	977,567	0	977,567
Undesignated	48,904,474	0	48,904,474	0	48,904,474
Total Unrestricted	<u>49,882,041</u>	<u>0</u>	<u>49,882,041</u>	<u>0</u>	<u>49,882,041</u>
Total Net Assets	<u>49,882,041</u>	<u>446,915</u>	<u>50,328,956</u>	<u>(996,483)</u>	<u>49,332,473</u>
<b>Total Liabilities and Net Assets</b>	<b>\$ 50,782,440</b>	<b>\$ 19,290,453</b>	<b>\$ 70,072,893</b>	<b>\$ (7,691,013)</b>	<b>\$ 62,381,880</b>

The Accompanying Notes are an Integral Part of These Consolidated Financial Statements.

**GRIFFISS UTILITY SERVICES CORPORATION AND SUBSIDIARY**

**CONSOLIDATING SCHEDULE OF ACTIVITIES**

**For the Year Ended December 31, 2014**

	<u>GUSC</u>	<u>GUSC Energy Inc.</u>	<u>Combined Balance</u>	<u>Consolidation Elimination</u>	<u>Consolidated Balance</u>
<b>Revenues and Gains</b>					
Steam Revenue Charges	\$ 2,967,428	\$ 2,509,184	\$ 5,476,612	\$ (2,509,184)	\$ 2,967,428
Electricity Distribution Charges	8,710,704	0	8,710,704	(205,670)	8,505,034
Interest Income	350,031	0	350,031	(292,500)	57,531
Grant Revenue	0	1,816,609	1,816,609	0	1,816,609
Administration Fees	106,000	0	106,000	(106,000)	0
Other Income	<u>86,694</u>	<u>9,972</u>	<u>96,666</u>	<u>0</u>	<u>96,666</u>
Total Revenues and Gains	<u>12,220,857</u>	<u>4,335,765</u>	<u>16,556,622</u>	<u>(3,113,354)</u>	<u>13,443,268</u>
<b>Expenses</b>					
Program Services					
Steam Heating Services	4,591,146	2,645,772	7,236,918	(2,813,146)	4,423,772
Electricity Distribution Services	6,533,761	0	6,533,761	0	6,533,761
Supporting Services					
Management and General	<u>732,653</u>	<u>1,410,300</u>	<u>2,142,953</u>	<u>(300,208)</u>	<u>1,842,745</u>
Total Expenses	<u>11,857,560</u>	<u>4,056,072</u>	<u>15,913,632</u>	<u>(3,113,354)</u>	<u>12,800,278</u>
<b>Increase in Net Assets</b>	363,297	279,693	642,990	0	642,990
<b>Net Assets, Beginning of Year</b>	<u>49,518,744</u>	<u>167,222</u>	<u>49,685,966</u>	<u>(996,483)</u>	<u>48,689,483</u>
<b>Net Assets, End of Year</b>	<u>\$ 49,882,041</u>	<u>\$ 446,915</u>	<u>\$ 50,328,956</u>	<u>\$ (996,483)</u>	<u>\$ 49,332,473</u>

The Accompanying Notes are an Integral Part of These Consolidated Financial Statements.

**GRIFFISS UTILITY SERVICES CORPORATION AND SUBSIDIARY**

**CONSOLIDATING SCHEDULE OF FINANCIAL POSITION**

**December 31, 2013**

	<u>GUSC</u>	<u>GUSC Energy Inc.</u>	<u>Combined Balance</u>	<u>Consolidation Elimination</u>	<u>Consolidated Balance</u>
<b>Assets</b>					
<b>Current Assets</b>					
Cash	\$ 11,810,998	\$ 219,889	\$ 12,030,887	\$ 0	\$ 12,030,887
Accounts Receivable, Net	1,172,768	0	1,172,768	0	1,172,768
Due From Subsidiary	0	56,305	56,305	(56,305)	0
Prepaid Expenses	638,170	0	638,170	0	638,170
Inventory	193,297	0	193,297	0	193,297
Total Current Assets	<u>13,815,233</u>	<u>276,194</u>	<u>14,091,427</u>	<u>(56,305)</u>	<u>14,035,122</u>
<b>Property</b>					
Land, Buildings, and Improvements	18,421,741	18,112,905	36,534,646	0	36,534,646
Vehicles and Equipment	8,434,803	0	8,434,803	0	8,434,803
Fuel Tanks	1,390,964	0	1,390,964	0	1,390,964
Distribution Lines	20,403,808	0	20,403,808	0	20,403,808
Office Furnishings	40,925	0	40,925	0	40,925
Construction in Progress	119,251	0	119,251	0	119,251
Total Property	48,811,492	18,112,905	66,924,397	0	66,924,397
Accumulated Depreciation	19,435,930	0	19,435,930	0	19,435,930
Net Property	<u>29,375,562</u>	<u>18,112,905</u>	<u>47,488,467</u>	<u>0</u>	<u>47,488,467</u>
<b>Other Assets</b>					
Investment in Subsidiary	996,483	0	996,483	(996,483)	0
Cash Surrender Value	208,739	0	208,739	0	208,739
Note Receivable - Subsidiary	6,000,000	0	6,000,000	(6,000,000)	0
Deferred Tax Asset	0	229,521	229,521	0	229,521
Loan Closing Costs	0	53,775	53,775	0	53,775
Total Other Assets	<u>7,205,222</u>	<u>283,296</u>	<u>7,488,518</u>	<u>(6,996,483)</u>	<u>492,035</u>
<b>Total Assets</b>	<u>\$ 50,396,017</u>	<u>\$ 18,672,395</u>	<u>\$ 69,068,412</u>	<u>\$ (7,052,788)</u>	<u>\$ 62,015,624</u>
<b>Liabilities and Net Assets</b>					
<b>Current Liabilities</b>					
Accounts Payable and Accrued Expenses	\$ 649,335	\$ 1,290,633	\$ 1,939,968	\$ 0	\$ 1,939,968
Due to Parent Company	56,305	0	56,305	(56,305)	0
Deposits	111,543	0	111,543	0	111,543
Total Current Liabilities	<u>817,183</u>	<u>1,290,633</u>	<u>2,107,816</u>	<u>(56,305)</u>	<u>2,051,511</u>
<b>Long-Term Liabilities</b>					
Deferred Compensation	60,090	0	60,090	0	60,090
Long-Term Debt	0	17,214,540	17,214,540	(6,000,000)	11,214,540
Total Long-Term Liabilities	<u>60,090</u>	<u>17,214,540</u>	<u>17,274,630</u>	<u>(6,000,000)</u>	<u>11,274,630</u>
<b>Net Assets</b>					
Paid-in-Capital	0	996,483	996,483	(996,483)	0
Accumulated Deficit	0	(829,261)	(829,261)	0	(829,261)
<b>Unrestricted Net Assets</b>					
Board Designated Reserves	1,000,000	0	1,000,000	0	1,000,000
Undesignated	48,518,744	0	48,518,744	0	48,518,744
Total Unrestricted	<u>49,518,744</u>	<u>0</u>	<u>49,518,744</u>	<u>0</u>	<u>49,518,744</u>
Total Net Assets	<u>49,518,744</u>	<u>167,222</u>	<u>49,685,966</u>	<u>(996,483)</u>	<u>48,689,483</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 50,396,017</u>	<u>\$ 18,672,395</u>	<u>\$ 69,068,412</u>	<u>\$ (7,052,788)</u>	<u>\$ 62,015,624</u>

The Accompanying Notes are an Integral Part of These Consolidated Financial Statements.

**GRIFFISS UTILITY SERVICES CORPORATION AND SUBSIDIARY**

**CONSOLIDATING SCHEDULE OF ACTIVITIES**

**For the Year Ended December 31, 2013**

	<u>GUSC</u>	<u>GUSC Energy Inc.</u>	<u>Combined Balance</u>	<u>Consolidation Elimination</u>	<u>Consolidated Balance</u>
<b>Revenues and Gains</b>					
Steam Revenue Charges	\$ 3,000,688	\$ 2,133,442	\$ 5,134,130	\$ (2,133,442)	\$ 3,000,688
Electricity Distribution Charges	7,413,168	0	7,413,168	0	7,413,168
Interest Income	226,297	0	226,297	(183,121)	43,176
Administration Fees	120,000	0	120,000	(120,000)	0
Other Income	76,698	166,229	242,927	0	242,927
Total Revenues and Gains	<u>10,836,851</u>	<u>2,299,671</u>	<u>13,136,522</u>	<u>(2,436,563)</u>	<u>10,699,959</u>
<b>Expenses</b>					
Program Services					
Steam Heating Services	3,525,894	2,017,427	5,543,321	(1,698,442)	3,844,879
Electricity Distribution Services	5,997,937	0	5,997,937	0	5,997,937
Supporting Services					
Management and General	<u>1,079,685</u>	<u>887,060</u>	<u>1,966,745</u>	<u>(738,121)</u>	<u>1,228,624</u>
Total Expenses	<u>10,603,516</u>	<u>2,904,487</u>	<u>13,508,003</u>	<u>(2,436,563)</u>	<u>11,071,440</u>
<b>Increase (Decrease) in Net Assets</b>	233,335	(604,816)	(371,481)	0	(371,481)
<b>Net Assets, Beginning of Year</b>	<u>49,285,409</u>	<u>772,038</u>	<u>50,057,447</u>	<u>(996,483)</u>	<u>49,060,964</u>
<b>Net Assets, End of Year</b>	<u>\$ 49,518,744</u>	<u>\$ 167,222</u>	<u>\$ 49,685,966</u>	<u>\$ (996,483)</u>	<u>\$ 48,689,483</u>

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